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UNFPA — Recommendations of the Board of Auditors

United Nations Population Fund

Follow-up to the report of the United Nations Board of Auditors for 2008-2009: status of implementation of the recommendations

Report of the Executive Director

Summary

Pursuant to decision 97/2 of the Executive Board, the Executive Director is pleased to submit the second report on the implementation of the recommendations of the United Nations Board of Auditors for UNFPA, for the biennium that ended 31 December 2009 (A/65/5/Add.7).

This report updates the actions taken by UNFPA to implement the recommendations of the United Nations Board of Auditors (A/63/5/Add.7), as contained in document DP/FPA/2011/1.

A separate table, available on the web page of the UNFPA Executive Board (http://www.unfpa.org/public/home/exbrd/pid/8683) provides further details of the audit recommendations and the status of their implementation. UNFPA also addressed audit issues in its report on internal audit and oversight activities in 2010 (DP/FPA/2011/5), which it submitted to the annual session 2011 of the Executive Board.

In accordance with Executive Board decision 2011/9, the present report indicates the priority accorded to each of the audit recommendations. As of 30 September 2011, UNFPA had implemented 73 of 93 recommendations. UNFPA is committed to ensuring accountability at all levels of the organization, and has established dedicated mechanisms to follow up external and internal audit recommendations on a regular basis. It is also addressing the root causes of the problems identified by the Board of Auditors.

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I. Introduction

1. Pursuant to decision 97/2 of the Executive Board, the Executive Director is pleased to submit a progress report on the implementation by UNFPA of the recommendations of the United Nations Board of Auditors, for the biennium that ended 31 December 2009 (A/65/5/Add.7). In document A/65/498, the Advisory Committee on Administrative and Budgetary Questions (ACABQ) reviewed the report of the Board of Auditors and the corresponding report of the Secretary-General (A/65/296/Add.1).

2. As noted by the United Nations Board of Auditors in its report to the General Assembly (A/66/139), there is a need to establish a dedicated follow-up mechanism or function and to address the root causes of the problems identified by the Board of Auditors. UNFPA has established a dedicated follow-up mechanism to implement external and internal audit recommendations. The Executive Director of UNFPA chairs the Audit Monitoring Committee, which meets regularly and is attended by all concerned directors. Its secretariat works closely with country and regional offices and various units at headquarters. It follows up on the implementation of audit recommendations by business units and provides advice. The monitoring of activities under national execution has been further strengthened by monthly reporting to the Audit Monitoring Committee.

3. UNFPA is committed to addressing the issues identified by the United Nations Board of Auditors. UNFPA has either completed action on the recommendations or is in the process of completing action on all the recommendations. A comprehensive and systematic approach that strengthens controls and ensures compliance has enhanced the UNFPA response to the recommendations.

4. UNFPA has a strong emphasis on accountability and oversight, based on the following organizational pillars:

(a) nurturing the organizational culture of accountability and making accountability a corporate priority for UNFPA;

(b) strengthening accountability and controls, inter alia, through an enhanced internal control framework;

(c) building capacity, through the provision of support and training to UNFPA staff and implementing partners;

(d) ensuring systematic monitoring and follow-up by senior management through an audit monitoring committee, chaired by the Executive Director, which convenes regularly to review progress made, including on national execution;

(e) ensuring regular reporting to governing bodies and other decision-making bodies.

5. This report provides an update on the actions undertaken by UNFPA to implement the recommendations of the United Nations Board of Auditors, as contained in document (A/65/5/Add.7). UNFPA also addressed audit issues in its report on internal audit and oversight activities in 2010 (DP/FPA/2011/5), and in the management response to that report, which UNFPA submitted to the Executive Board at its annual session 2011.

6. This report is organized as follows:

(I) Introduction

(II) Status of implementation of the audit recommendations

(III) Conclusion

(IV) Recommendation

(V) Annex

7. The recommendation numbers cited in this document correspond to those contained in the report of the United Nations Board of Auditors (A/65/5/Add.7).

II. Status of implementation of the audit recommendations

8. At the end of September 2011, UNFPA had implemented 73 of 93 recommendations (78 per cent) in the report of the United Nations Board of Auditors for the biennium that ended 31 December 2009 (A/65/5/Add.7). This is an increase from 61 implemented recommendations (66 per cent) at the end of March 2011. UNFPA has rigorously addressed systemic issues, in particular those related to national execution and compliance with procedures, which are the primary concerns of the Board of Auditors.

9. In line with the report of the Secretary-General to the sixty-fifth session of the General Assembly, on the implementation of the recommendations of the Board of Auditors on the financial statements of United Nations funds and programmes for the financial period that ended 31 December 2009 (A/65/296/Add.1), the table below summarizes the implementation of the recommendations, in accordance with Executive Board decision 2011/9.

10. The report of the United Nations Board of Auditors (A/66/139) states that "The Board is generally satisfied with the progress made by UNFPA given that the implementation was on target in accordance with the management action plans. The Board acknowledges that certain recommendations can only be fully implemented with preparation of the biennium-end financial statements and encourages management to keep these matters under review". The target completion date for each pending recommendation is contained in the audit implementation table available on the Executive Board web page (http://www.unfpa.org/public/home/exbrd/pid/8683).

11. To strengthen its analysis, UNFPA grouped the recommendations by the following risk categories, defined in the report on UNFPA internal audit and oversight activities in 2005 (DP/FPA/2006/4): (a) people risk; (b) process risk; and (c) relationship risk. The paragraphs that follow summarize the status of implementation of the recommendations.

12. In addition, the report will elaborate on the following three issues in their appropriate risk categories: (a) implementation of the International Public Sector Accounting Standards (IPSAS); (b) third-party procurement; and (c) national execution.

A. People risk

13. There are seven recommendations in the 'people risk' group: four recommendations are of high priority (296, 309, 313 and 314); and three recommendations are of medium priority (recommendations 300, 318 and 323).

14. This group includes seven recommendations relating to the contractual arrangements of temporary personnel, vacancy management, attendance and leave monitoring. UNFPA has implemented two additional recommendations since January 2011, making the total number of implemented recommendations five of seven, or 71 per cent.

15. With reference to the second part of recommendation 309, UNFPA is expected to accurately compute, by March 2012, the leave pay provision in its financial statements. In September 2011, UNFPA issued a more detailed policy on absence management that established the roles, duties and obligations of designated UNFPA staff members with respect to absence management. All managers and designated staff are being held accountable for its implementation. Leave accruals that accurately provide the estimated liabilities are a part of IPSAS, which UNFPA is scheduled to implement in 2012. For international and locally recruited staff, the joint UNDP/UNFPA/UNOPS implementation of IPSAS will provide an automated process that will generate monthly leave accrual reports reconciled with the leave provision in the financial statements.

16. The United Nations Board of Auditors noted with concern the low rate of submission by the country offices of semi-annual reports on service contracts (recommendation 318). UNDP administers service contracts for UNFPA in its field offices. In 2011, UNDP launched an additional Atlas human resources module. The roll-out to all UNFPA country offices will be completed by the end of 2012. The new module will automatically generate detailed reports on the use of service contracts, and alleviate the need for reporting by country offices.

Implementation status of audit recommendations by area of responsibility as of 30 September 2011

Division/ country office	Number of recommendations	Not implemented	Implemented	In progress		Priority	
						High	Medium
Division for Management Services	52	1	36	15		26	26
National Execution Unit	13	0	11	2		9	4
Division for Oversight Services	2	0	2	0		0	2
Division for Human Resources	5	0	4	1		4	1
Information and External Relations Division	2	0	2	0		2	0
Programme Division	1	0	1	0		0	1
Country offices	18	0	17	1		4	14
Total	93	1	73	19		45	48

B. Process risk

17. There are 72 recommendations in the 'process risk' group. Thirty recommendations are of high priority (27, 31, 41, 44, 53, 58, 62, 68, 72, 76, 87, 90, 95, 106, 107, 111, 197, 215, 237, 256, 267, 270, 281, 290, 291, 334, 335, 339, 346 and 347), and the remaining 42 are of medium priority (35, 49, 50, 65, 99, 114, 116, 198, 201, 205, 209, 220, 225, 229, 232, 238, 241, 244, 246, 251, 262, 273, 277, 350, 359, 360, 365, 370, 371, 375, 379, 383, 387, 392, 395, 401, 405, 424, 425, 429, 434 and 436). The financial operations audit category has 39 recommendations; general administration has 32; and corporate strategy has one.

18. This group includes recommendations related to procurement activities, assets, travel and IPSAS implementation. There are 72 recommendations, of which 56 (77 per cent) have been implemented, up from 26 (36 per cent) reported a year ago. They represent 21 of 30 high-risk recommendations (70 per cent), and 35 of 42 medium-risk recommendations (83 per cent).

International Public Sector Accounting Standards (recommendations 27, 31, 35, 90, 290, 291 and 309)

19. UNFPA is adopting IPSAS as its future financial accounting platform in accordance with General Assembly resolution 60/283, based on the report of the Secretary-General (A/60/846/Add.3) and the recommendation by the ACABQ in document A/60/870. UNFPA has adopted a phased-preparedness approach since 2008 to achieve full readiness and compliance with IPSAS standards by 2012. In its 2008-2009 accounts, UNFPA adopted the 'delivery' principle, whereby it no longer accounted for unliquidated obligations, but recorded expenditures and liabilities based on the delivery of goods and services. As part of this phased approach, UNFPA changed some accounting policies in 2010 and 2011, which are in line with IPSAS standards and still permissible within United Nations system accounting standards.

20. The Board of Auditors, in its previous biennial reports, included a section on how entities in the United Nations system are progressing with IPSAS implementation. In accordance with General Assembly resolution 65/243 and the recommendation of the ACABQ in document A/65/498, the Board of Auditors reviewed UNFPA progress in implementing IPSAS.

21. The report of the Board of Auditors on IPSAS readiness at UNFPA remarked that "the adoption of the phased implementation approach has had the impact of spreading the effort required by UNFPA to prepare for IPSAS adoption over a number of years." The report further noted that the "overall assessment of IPSAS at UNFPA is that the Agency's expectations for the IPSAS adoption could be met by 2012. UNFPA has selected a phased-implementation strategy, which appears to be serving the organization in terms of pacing the activities required. Most UNFPA activities are well poised to implement IPSAS by 2012. Therefore, the UNFPA plan appears realistic."

Third-party procurement (recommendations 339, 346, 347, 350 and 360)

22. The Board of Auditors has stated its concerns regarding third-party procurement: (a) the treatment of residual balances; (b) overspent balances; and (c) interest earned. UNFPA has completed a comprehensive review of third-party procurement. This has facilitated the adoption of management decisions with respect to the treatment of residual balances, the collection of overspent balances, and a consistent policy on reporting interest for third-party procurement. The Procurement Services Branch, with the Finance Branch, operationalized these improvements throughout 2011, and will continue to maintain robust management control systems for third-party procurement.

C. Relationship risk

23. *There are 14 recommendations in the 'relationship' group: 10 recommendations are of high priority (134, 142, 149, 154, 159, 161, 165, 175, 188 and 192), and four recommendations are of medium priority (128, 133, 160 and 181).*

24. This group includes recommendations relating to interactions between UNFPA and its implementing partners and related processes. There are 14 recommendations

in this group, of which only one is not on national execution. Nine of 10 high-risk recommendations deal with national execution. All 14 are on financial operations and controls. Two high-risk recommendations on national execution (154 and 192) await validation by the Board of Auditors.

National execution (recommendations 128, 133, 142, 149, 154, 159, 160, 161, 165, 175, 181, 188 and 192)

25. UNFPA has implemented all 13 recommendations related to national execution as of the end of August 2011, but the Board of Auditors has not yet validated all of them. One hundred per cent implementation is the result of a focused and concerted effort by UNFPA to address the key issues that led to the recommendations, namely: (a) inadequate audit planning; (b) delayed submission of audit reports and inadequate audit coverage; (c) substandard quality of audits; (d) inadequate compliance with national execution audit recommendations; and (e) the lack of reliability of the National Execution Audit Management System (NEXAMS) database, where the audit reports are recorded.

26. Timely and high-quality audit planning is important because it reduces the likelihood of audit reports with negative opinions and improves the likelihood that audit reports will be submitted on time. For the 2010 national execution audit cycle (2010 expenditure, audited in 2011), UNFPA instructed its offices to undertake pre-audits with its implementing partners and requested that audit planning questionnaires be completed, to facilitate the work of the global audit firm selected to undertake approximately 75 per cent of the national execution audits. UNFPA closely monitored the submission of audit plans; by the deadline of 31 January 2011, 96 per cent of all offices had submitted their plans. This was a significant improvement compared to 2008 and 2009, where on-time submissions were 17 per cent and 38 per cent, respectively.

27. The delayed submission of the 2009 audit reports was a problem. With the global audit firm undertaking a majority of the 2010 national execution audits, the on-time submission by the deadline (30 April 2011), was 66 per cent. While this submission rate was not as high as expected, due to a delay in the release of the corresponding module in NEXAMS, it was much better than for 2008 and 2009, where the submission rate was 54 per cent and 60 per cent, respectively. UNFPA has taken steps to avoid similar delays for the 2011 audit and is confident that there will be a significant improvement in this area. As of the end of September 2011, 97 per cent of all 2010 national execution audit reports had been submitted.

28. In terms of audit coverage for the 2010 national execution audits, the expenditure coverage rate was 80 per cent as of the end of September 2011, in accordance with the UNFPA target. UNFPA reached this target through active monitoring and review of audit plans and by including direct payments in the scope of the audit. In 2009, the expenditure coverage rate was only 74 per cent, and in 2008, it was 56 per cent. Attaining a certain level of audit coverage is important for management as well as for internal and external auditors. UNFPA introduced a combined delivery Atlas report as the basis for the 2010 national execution audits. This improved the consistency between the audited amounts recorded in the national execution audit reports and in the national execution expenditure in Atlas.

29. In the past, the Board of Auditors and the UNFPA Division for Oversight Services identified the quality of the national execution audit reports as a problem.

The quality of such reports and their delayed submission were the primary reasons UNFPA decided to employ a global audit firm. This action, coupled with the issuance of standardized, revised terms of reference for national execution audits, improved the quality of the national execution audit reports. It permitted UNFPA to provide standardized audit recommendations within the revised terms of reference to identify recurring audit findings and areas where UNFPA policies could be further strengthened. UNFPA has already taken action on these matters; for example, it has issued a new policy on support costs for non-governmental organizations.

30. The robust approach for national execution audits resulted in a decline in the percentage of audit reports with a negative opinion, from 17 per cent in 2009 to 13 per cent in 2010. It also resulted in an increase in the percentage of unsupported national execution expenditures in the 2010 national execution audit reports to $5.8 million (3.5 per cent) versus $3.8 million (3.0 per cent) for 2009. UNFPA is closely examining these amounts with its implementing partners in order to clear all pending amounts.

31. UNFPA has taken a number of steps with regard to inadequate compliance with national execution audit recommendations. In early 2011, UNFPA suspended cash advances to implementing partners with two consecutive negative national execution audit reports or with unsupported expenditure, until these issues were resolved. This reduced the risks related to national-execution advances and reinforced compliance with audit recommendations. UNFPA has also established a rigorous process for submitting audit reports and for reviewing the actions taken by implementing partners and UNFPA country offices to address the audit findings. These actions have improved compliance. To further strengthen the audit-compliance rate, national execution auditors will henceforth be required to review and report on the degree to which previous audit recommendations have been implemented by the implementing partners.

32. The lack of reliability of NEXAMS with regard to the 2008 and 2009 national execution audits was a key issue, in particular the inconsistencies between NEXAMS and the UNFPA financial management system (Atlas). In preparation for the 2010 national execution audit cycle, UNFPA launched an enhanced NEXAMS database. This has improved reliability in the national execution audit process. Although the launch of the new NEXAMS database was delayed, thereby causing delays in the on-line submission of audit reports for 2010, this will not occur for the 2011 national execution audit cycle.

33. During 2011, UNFPA also verified the information recorded in NEXAMS related to the 2009 national execution audit reports, in terms of the number of audit reports expected and submitted, and the audit opinions. UNFPA also enhanced NEXAMS to include audit reports from countries using the assurance modality for the harmonized approach to cash transfers.

34. With the 2009 national execution audit cycle completed and major improvements made for the 2010 national execution audit cycle, UNFPA has begun the development of a two-pronged capacity development effort that targets UNFPA staff as well as its implementing partners. UNFPA will complete these actions in 2012, thereby contributing to a long-term improvement in the outcomes of national execution audits.

III. Conclusion

35. The midterm review of the UNFPA strategic plan, 2008-2013 (DP/FPA/2011/11), resulted in simplifying business processes, streamlining decision-making and strengthening accountability. UNFPA will sharpen its focus on its core mandate. It will remain a champion of reproductive health and rights and lead global efforts to accelerate the reduction of maternal mortality and provide universal access to reproductive health, including family planning, especially in countries where progress on the goals of the International Conference on Population and Development and Millennium Development Goal 5 are lagging.

36. The revised UNFPA development results framework now has seven rather than 13 outcomes. UNFPA has also streamlined the outputs of its management results framework, from nine to four. The revised outputs address the key challenges of the organization and the managerial priorities for the remaining two years of the strategic plan, which concludes in 2013.

37. UNFPA is committed to addressing the issues and risks raised in the report of the United Nations Board of Auditors (A/65/5/Add.7). It has taken measures to address the root causes and established a dedicated follow-up mechanism at the highest level of leadership. UNFPA has introduced changes in national execution audit modalities. The UNFPA Executive Director has expressed his commitment to accountability at all levels of the organization. As indicated in this report, UNFPA has taken measures to improve and strengthen accountability and controls and to ensure that all staff members comply with operational guidelines and are held accountable for compliance with these guidelines. UNFPA has enhanced its response through a comprehensive and systematic approach to strengthen internal controls and ensure compliance with policies and procedures. UNFPA will also address several of the audit recommendations, on issues such as improving accountability and strengthening management, through measures undertaken as part of the UNFPA business plan.

38. UNFPA has implemented 73 of 93 recommendations made by the United Nations Board of Auditors for the biennium that ended on 31 December 2009. UNFPA will implement all the remaining recommendations by March 2012, except one, which is tied to the UNDP roll-out of the Atlas human resources module for all country offices. The implementation of that recommendation will be completed by December 2012.

IV. Recommendation

39. The Executive Board may wish to take note of the present report (DP/FPA/2012/5) on the actions taken by UNFPA and the further actions planned by UNFPA in implementing the recommendations of the United Nations Board of Auditors for the 2008-2009 biennium.

V. Annex

List of the 2008-2009 audit recommendations according to the priorities established by the United Nations Board of Auditors

1. There are seven recommendations in the 'people' group: four recommendations are of high priority (296, 309, 313 and 314), and three recommendations are of medium priority (recommendations 300, 318 and 323).

2. There are 72 recommendations in the 'process' group. Thirty recommendations are of high priority (27, 31, 41, 44, 53, 58, 62, 68, 72, 76, 87, 90, 95, 106, 107, 111, 197, 215, 237, 256, 267, 270, 281, 290, 291, 334, 335, 339, 346 and 347), and 42 recommendations are of medium priority (35, 49, 50, 65, 99, 114, 116, 198, 201, 205, 209, 220, 225, 229, 232, 238, 241, 244, 246, 251, 262, 273, 277, 350, 359, 360, 365, 370, 371, 375, 379, 383, 387, 392, 395, 401, 405, 424, 425, 429, 434 and 436).

3. There are 14 recommendations in the 'relationship' group: ten recommendations are of high priority (134, 142, 149, 154, 159, 161, 165, 175, 188 and 192), and four recommendations are of medium priority (128, 133, 160 and 181).